

Message Text

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FM SECSTATE WASHDC
TO USDEL HOUSTON IMMEDIATE

S E C R E T STATE 046702

EXDIS TOSEC 023

FOLLOWING SENT ACTION SECSTATE FROM TEHRAN MARCH 2

QUOTE S E C R E T TEHRAN 1975

EXDIS

FOR THE SECRETARY FROM THE AMBASSADOR

PLEASE DELIVER OOB MARCH 2

E.O. 11652: XGDS-1
TAGS: USIRJC, OVIP
SUBJ: ANSARY DISCUSSION ITEMS

1. AT AUDIENCE AFTERNOON MARCH 1, SHAH STATED THAT HE HAD INSTRUCTED MINISTER OF ECONOMIC AFFAIRS AND FINANCE ANSARY, WHO HEADS IRANIAN DELEGATION TO JOINT COMMISSION MEETING, TO TAKE UP WITH YOU PERSONALLY TWO ITEMS WHICH ARE DISCUSSED BELOW. THERE MAY BE OTHERS BUT SHAH DID NOT SO INDICATE.

2. THE FIRST OF THESE MATTERS IS CO-PRODUCTION OF TOW AND MAVERICK MISSILES. BY WAY OF BACKGROUND, HUGHES HAS GIVEN GOI ITS ESTIMATED COSTS FOR CO-PRODUCTION OF BOTH TOW AND MAVERICK. COSTS FOR MAVERICK WERE CONSIDERED EXCESSIVE BY IRANIANS AND THEY HAVE REJECTED HUGHES' PROPOSAL. GOI WILL
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PAY ABOUT DOLS23,000 EACH FOR 2,500 MAVERICK MISSILES THEY

HAVE ORDERED FROM THE US. ON BASIS OF HUGHES' PROPOSAL THAT GOI MIGHT PRODUCE 1,000 MAVERICK MISSILES IN IRAN, CO- PRODUCTION COST WOULD RISE TO DOLS103,000 EACH OR A TOTAL OF DOLS103 MILLION. HIGH COST IS PRIMARILY ATTRIBUTABLE TO LOW PRODUCTION LEVEL AND HIGH NON-RECURRING COSTS FOR ESTABLISHMENT OF MANUFACTURING CAPABILITY WHICH MIGHT TOTAL DOLS40 MILLION AND ROYALTY FEES WHICH MIGHT EXCEED DOLS25 MILLION. SHAH APPARENTLY REALIZED THAT IT WOULD NOT BE GOOD BUSINESS PROPOSITION FOR IRAN TO MANUFACTURE MAVERICK ONLY FOR ITS OWN CONSUMPTION. HE UNDERSTANDS THAT MAVERICK PRODUCTION LINES IN US WILL CLOSE SOON AND ANSARY WILL ASK YOU IF US MIGHT NOT BE INTERESTED IN BUYING MAVERICKS PRODUCED IN IRAN. ALTERNATIVELY, IRAN WOULD PROBABLY LIKE OUR AUTHORITY TO SELL MAVERICKS TO THIRD COUNTRIES. WE UNDERSTAND FROM LOCAL HUGHES REPRESENTATIVE, HOWEVER, THAT THEIR MAVERICK PRODUCTION WILL CONTINUE FOR ANOTHER 3 TO 5 YEARSS. AS TO TOW, USG SALES PRICE THROUGH FMS CONTRACT IS JUST UNDER DOLS4,000 FOR EACH MISSIL. IRAN HAS ORDERED 14,000 MISSILES. HUGHES' TOW PROPOSAL WAS BASED ON IRANIAN MANUFACTURE OF 20,000 MISSILES AT A TOTAL COST OF DOLS104.6 MILLION. CLEARLY THIS IS MORE ATTRACTIVE PROPOSITION THAN MAVERICK PROPOSAL AND GOI HAS TOLD HUGHES THAT IT WOULD LIKE TO PROCEED WITH A FORMAL STUDY OF TOW CO-PRODUCTION IN IRAN. IRANIANS PLAN TO DISCUSS OBJECTIVES OF HUGHES' TOW STUDY WITH COMPANY REPRESENTATIVES NEXT MONTH. REGRET THAT I DO NOT HAVE ANY QUICK SUGGESTIONS FOR YOU AS TO HOW YOU SHOULD HANDLE ANSARY ON MAVERICK ISSUE. GIVEN PRESENT DIFFICULTIES WITH CONGRESS AND BUILT-IN DISADVANTAGES OF SMALL PRODUCTION RUN, THERE DOES NOT SEEM TO BE ANY EASY SOLUTION. PROBABLY YOUR BEST APPROACH ON THIS ONE WOULD BE TO OFFER TO STUDY PROBLEM AND PRODUCE SUGGESTIONS FOR GOI AS SOON AS WE CAN.

3. SHAH WAS SOMEWHAT VAGUE ON THE SECOND ISSUE, THAT OF LIQUEFIED NATURAL GAS (LNG), BUT I ASSUMED HIS MAIN CONCERN TO BE THAT THE FEDERAL POWER COMMISSION, BY DELAYING APPROVAL, WILL HINDER THE PROGRESS OF TWO LARGE LNG PROJECTS NOW BEING PLANNED HERE. THESE ARE THE KALINGAS AND EL PASO DISTRIGAZ PROJECTS. THE FIRST, (KALINGAL) IS A 50-50 JOINT VENTURE (CONTRACT SIGNED) BETWEEN THE NATIONAL IRANIAN GAS COMPANY (NIGC) AND A CONSORTIUM CONSISTING OF INTERNATIONAL SYSTEMS AND CONTROLS CORP. (ISC) AND CHICAGO BRIDGE AND IRON OF THE

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US, NISSHO IWAI OF JAPAN AND A NORWEGIAN SHIPPING FIRM. WE UNDERSTAND THAT LONE STAR GAS COMPANY OF THE US ALSO MAY HAVE JOINED THIS CONSORTIUM IN RECENT DAYS. KALINGAS PLANS TO PRODUCE (FROM OFFSHORE GAS FIELD) AND EXPORT AN INITIAL 800 MILLION CUBIC FEET PER DAY OF LNG TO JAPAN AND THEN EXPAND TO 1.6 BILLION CUBIC FEET PER DAY, WITH MUCH OF THE ADDED GAS DESTINED FOR US MARKET. THE SECOND IS EL PASO OF THE US AND DISTRIGAZ OF BELGIUM WHO HAVE SIGNED LETTER OF INTENT WITH NIGC TO

FORM A JOINT VENTURE TO LIQUEFY AND EXPORT TWO BILLION CUBIC FEET/DAY. PLANS CALL FOR HALF THIS GAS TO GO TO WESTERN EUROPE AND HALF TO THE US, EITHER VIA THE SUEZ CANAL (WHICH WOULD GENERATE CONSIDERABLE INCOME IN TOLLS FOR THE UAR) OR VIA PIPELINE TO A LIQUIFACTION PLANT IN TURKEY. KALINGAS IS DUE ON STREAM BY 1930, BUT HAS ALREADY DECIDED TO SHIP ENTIRE INITIAL CAPACITY TO JAPAN, IN ANTICIPATION OF DIFFICULTIES WITH FPC. EL PASO-DISRIQAZ PROJECT WOULD NOT COME ON STREAM UNTIL SOMETIME AFTER 1980. NEITHER OF THESE GROUPS HAS YET PRESENTED PROJECT TO FPC FOR APPROVAL. GOI IS BEGINNING LOBBYING EFFORT EARLY ON THIS ISSUE IN HOPES OF HEADING OFF DIFFICULTIES WITH FPC. DAVID MORSE, WHOSE WASHINGTON LAW FIRM (SURREY, KARASIK AND MORSE) REPRESENTS ISC CORP., RECENTLY MET WITH ME HERE AND TOUCHED ON PROBLEM OF FPC. HE ALSO APPARENTLY DISCUSSED FPC ISSUE IN AUDIENCE WITH SHAH. THEN LAST WEEK I SAW ROBERT KNIGHT, WHOSE LAW FIRM (SHEARMAN AND STERLING) REPRESENTS ALGERI AN GOVERNMENT IN LNG MATTERS. KNIGHT GAVE ME LONG TALE OF WOE ON DIFFICULTIES CAUSED BY FPC DELAYS AND INTRANSIGENCE IN APPROVING ALGERIAN PROJECTS. OUR UNDERSTANDING NOW IS THAT ISSUE OF LNG IMPORTS TO US HAS BECOME MUCH BROADER THAN "DIFFICULTIES WITH FPC". RECENT VISITORS FROM WASHINGTON HAVE INDICATED QUESTION OF POLICY ON LNG IMPORTS NOW BEING HOTLY DEBATED, WITH OPPONENTS OF IMPORTED LNG CARRYING THE DAY. HAVING NO CLEAR INFORMATION ON THIS SUBJECT, HOWEVER, WE HAVE NOT DISCUSSED IT WITH GOI.

4. UNDERSTAND THAT SHAH IS TO HOLD "IMPORTATN" PRESS CONFERENCE AFTERNOON OF MARCH 2. EMBASSY WILL PROMPTLY REPORT ANYTHING SIGNIFICANT IN VIEW OF UPCOMING JOINT COMMISSION MEETING.
HELMS
UNQUOTE INGERSOLL

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